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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, APRIL 29, 2002

APPLICATION OF

VIRGINIA NATURAL GAS, INC.

CASE NO. PUE-2002-00237

For approval of a Weather
Normalization Adjustment
Rider

ORDER PRESCRIBING NOTICE AND INVITING COMMENTS
AND/OR REQUESTS FOR HEARING

On April 16, 2002, pursuant to § 56-40 of the Code of Virginia ("Code") and 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure ("Rules"), Virginia Natural Gas, Inc. ("VNG" or the "Company") filed with the State Corporation Commission ("Commission") an application for approval of a Weather Normalization Adjustment ("WNA") Rider to the Company's tariff.

The proposed rider provides that the non-gas rate per hundred cubic feet ("Ccf") for gas service set forth in any rate schedules utilized by the Commission in determining normalized test period revenues will be adjusted by an amount referred to as the WNA factor. According to the application, the WNA factor will not increase rates. Rather, VNG asserts that it will insulate the Company and its customers from bill volatility caused by weather, which has been a source of complaint, by

providing customers with credits when bills are high due to colder-than-normal weather and by surcharging customers when bills drop based on warmer-than-normal weather. VNG states that treating colder weather and warmer weather equally will counteract swings in bills over the long-term with neither an increase nor a decrease in revenue.

According to the application, the Company would compute the marginal change in non-gas revenue associated with abnormal weather during the preceding 12-month period of July 1 to June 30 and spread that revenue over the expected sales volumes for October 1 through September 30 of each year. Specifically, VNG proposes to calculate annually separate WNA factors for the residential and general service rate schedules which, when applied to the billed volumes for each rate schedule as either a credit or a surcharge, would produce a bill that recovers VNG's cost of service approved by the Commission under normal weather conditions. In calculating the WNA, the difference between the actual heating degree days ("ADD") for the 12-months ending June 30 and the normal heating degree days ("NDD") adopted by the Commission in the Company's last rate case¹ is multiplied by the use per customer per degree day ("UCD") applied in the Company's last rate case to compute the sales volume adjustment due to

¹ Application of Virginia Natural Gas, Inc., For an expedited increase in gas rates, Case. No. PUE960227, 1998 S.C.C. Ann. Rpt. 338.

fluctuations from normal weather. The sales volume adjustment for each rate schedule would then be multiplied by the weighted average non-gas rate ("NGR") for temperature sensitive sales giving the total dollar amount of the WNA adjustment. This total dollar amount is converted to a rate per Ccf. VNG proposes to true-up and roll any difference between the calculated WNA and the WNA actually recovered into the WNA for the next year. The Company's application contains further details regarding the formula used to develop the WNA and the WNA's application.

NOW UPON CONSIDERATION of VNG's application, the Commission is of the opinion and finds that this matter should be docketed; the proposed tariff revision suspended until further order of the Commission; and a procedural schedule established as prescribed herein. We find that VNG should be directed to give notice to the public of its application and that interested parties should be given an opportunity to file comments and/or to request a hearing on the Company's proposal. We invite interested parties and affected customers to comment and/or request a hearing not only on the content of VNG's proposed WNA Rider, but also on whether the Company's proposal is permissible under § 56-40 of the Code and whether as proposed this rider constitutes "retroactive ratemaking." We will also direct the Commission Staff to investigate the Company's application and

file a report, which may take the form of testimony if appropriate, on the proposal set out therein.

Accordingly, IT IS ORDERED THAT:

(1) This matter is hereby docketed and assigned Case No. PUE-2002-00237.

(2) The proposed tariff revision is hereby suspended until further order of the Commission.

(3) A copy of VNG's application and this Order, as well as other documents now or hereafter filed in this matter, shall be available for public inspection in the Commission's Document Control Center located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. A copy of the Company's application and this Order also may be obtained by requesting a copy of the same from counsel for VNG, Edward L. Flippen, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030. Upon receipt of a request for a copy of the Company's application, VNG shall promptly serve copies of the same upon the requesting party within three (3) calendar days of such request.

(4) On or before May 24, 2002, VNG shall cause the following notice to be published as display advertising (not classified) once a week for two consecutive weeks in newspapers

of general circulation throughout the Company's service territory within the Commonwealth of Virginia:

NOTICE TO THE PUBLIC OF AN APPLICATION BY
VIRGINIA NATURAL GAS, INC.
FOR APPROVAL OF A WEATHER
NORMALIZATION ADJUSTMENT RIDER
CASE NO. PUE-2002-00237

On April 16, 2002, pursuant to § 56-40 of the Code of Virginia ("Code") and 5 VAC 5-20-80 of the Commission's Rules of Practice and Procedure ("Rules"), Virginia Natural Gas, Inc. ("VNG" or the "Company") filed with the State Corporation Commission ("Commission") an application for approval of a Weather Normalization Adjustment ("WNA") Rider to the Company's tariff.

According to the application, the Company would compute the marginal change in non-gas revenue associated with abnormal weather during the preceding 12-month period of July 1 to June 30 and spread that revenue over the expected sales volumes for October 1 through September 30 of each year by adjusting the non-gas rate per hundred cubic feet ("Ccf") for gas service by an amount referred to as the WNA factor. VNG asserts that this will counteract swings in bills caused by weather by providing customers with credits when bills are high due to colder-than-normal weather and by surcharging customers when bills drop based on warmer-than-normal weather. VNG states that the WNA factor will not increase rates.

Specifically, VNG proposes to calculate annually separate WNA factors for the residential and general service rate schedules. In calculating the WNA, the difference between the actual heating degree days ("ADD") for the 12-months ending June 30 and the normal heating degree days ("NDD") adopted by the Commission in the

Company's last rate case, Case No. PUE960227, is multiplied by the use per customer per degree day ("UCD") applied in the Company's last rate case to compute the sales volume adjustment due to fluctuations from normal weather. The sales volume adjustment for each rate schedule would then be multiplied by the weighted average non-gas rate ("NGR") for temperature sensitive sales giving the total dollar amount of the WNA adjustment. This total dollar amount is converted to a rate per Ccf. VNG proposes to true-up and roll any difference between the calculated WNA and the WNA actually recovered into the WNA for the next year.

VNG's application and the Commission's Order Prescribing Notice and Inviting Comments and/or Requests for Hearing contain further details regarding the proposed WNA and its application. Interested persons may view a copy of the application and order in the Commission's Document Control Center located on the First Floor of the Tyler Building, 1300 East Main Street, Richmond, Virginia, between the hours of 8:15 a.m. and 5:00 p.m., Monday through Friday. A copy also may be obtained upon request to counsel for VNG, Edward L. Flippen, McGuireWoods LLP, One James Center, 901 East Cary Street, Richmond, Virginia 23219-4030.

On or before June 12, 2002, any interested party wishing to comment and/or request a hearing on VNG's application shall file an original and fifteen (15) copies of written comments and/or request for hearing with the Clerk of the Commission at the address set forth below. Such comments and requests may address not only the content of VNG's proposed WNA Rider, but also whether the Company's proposal is permissible under § 56-40, and whether as proposed the rider constitutes "retroactive ratemaking." Any request for hearing shall state why the issues raised cannot be adequately addressed in written comments. If no sufficient

request for hearing is received, the Commission may consider VNG's application based upon the papers filed therein without convening a hearing at which oral testimony is received.

Also on or before June 12, 2002, persons, who file a request for hearing and expect to participate as a respondent should a hearing be scheduled in this matter, also shall file with the Clerk of the Commission at the address set forth below a notice of participation as required by Rule 80 B of the Rules.

Interested parties shall refer in their comments, requests for hearing, and/or notices of participation to Case No. PUE-2002-00237. All comments, requests for hearing, and/or notices of participation shall be filed with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Copies of the same shall simultaneously be served on counsel for VNG at the address set forth above.

VIRGINIA NATURAL GAS, INC.

(5) VNG shall forthwith serve a copy of this Order on the Chairman of the Board of Supervisors of any county and on the Mayor or Manager of any city or town (or on equivalent officials in counties, towns, and cities having alternate forms of government) in the Company's service territory. Service shall be made by first-class mail or delivery to the customary place of business or residence of the person served.

(6) On or before June 12, 2002, any interested party wishing to comment on VNG's application shall file an original

and fifteen (15) copies of written comments with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Such comments may address not only the content of VNG's proposed WNA Rider, but also whether the Company's proposal is permissible under § 56-40, and whether as proposed the rider constitutes "retroactive ratemaking." Interested parties shall refer in their comments to Case No. PUE-2002-00237 and shall serve a copy upon counsel for VNG.

(7) On or before June 12, 2002, any interested party wishing to request a hearing on VNG's application shall file an original and fifteen (15) copies of any request for hearing with the Clerk of the Commission. Such requests may address not only the content of VNG's proposed WNA Rider, but also whether the Company's proposal is permissible under § 56-40, and whether as proposed the rider constitutes "retroactive ratemaking." Any request for hearing shall state why the issues raised in the request for hearing cannot be adequately addressed in written comments. If no sufficient request for hearing is received, the Commission may consider VNG's application based upon the papers filed herein without convening a hearing at which oral testimony is received. Interested parties shall refer in their requests to Case No. PUE-2002-00237 and shall serve a copy upon counsel for VNG.

(8) On or before June 12, 2002, persons, who file a request for hearing and expect to participate as a respondent should a hearing be scheduled in this matter, also shall file a notice of participation as required by Rule 80 B of the Rules. All notices of participation shall be filed with the Clerk of the Commission. A copy of any notice of participation shall simultaneously be served on counsel for VNG.

(9) On or before June 17, 2002, VNG shall file with the Clerk of the Commission proof of the notice required in Ordering Paragraphs (4) and (5) above.

(10) On or before June 21, 2002, the Commission Staff shall investigate the Company's application and file a report, which may take the form of testimony if appropriate, on the proposal set out therein. A copy shall be served upon counsel for VNG.

(11) On or before July 1, 2002, VNG may file with the Clerk of the Commission a response to any comments filed by interested parties, as well as to the Staff Report.

(12) VNG shall respond to written interrogatories with seven (7) calendar days after receipt of the same. Except as modified above, discovery shall be in accordance with Part VI of the Rules.